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European Review

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31 January 1986

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*EUR ER 86-004
31 January 1986*

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European Review

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31 January 1986

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Switzerland: Next Fighter Procurement

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The Swiss Government has initiated a multiyear effort to acquire a new Air Force jet fighter. Costing about \$5 billion, this procurement will be the most expensive weapons acquisition in Swiss history. With aircraft from at least three countries under consideration, the selection process could provoke continuing controversy within the Swiss Government into the 1990s. [Redacted]

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Economic News in Brief

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[Redacted]

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Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as uncoordinated views. [Redacted]

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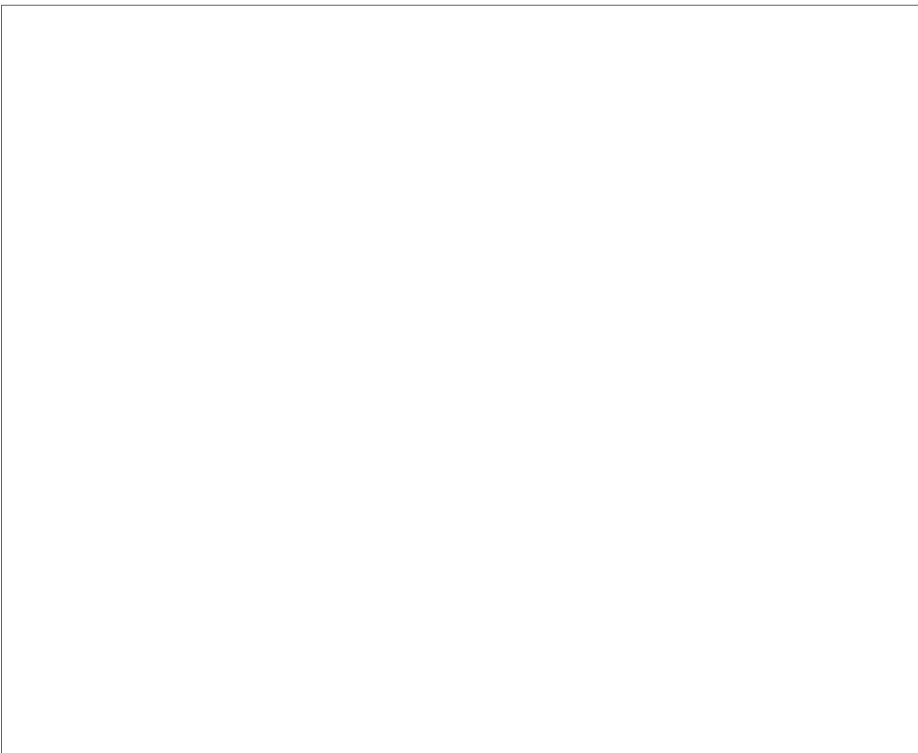
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Briefs

West Germany



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Modernizing the Alpha Jet

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Bonn will spend \$440 million to upgrade and extend the operating life of its aging fleet of 165 Alpha jets between 1990 and 1995. Extensive improvements will include advanced navigation systems to enhance night and poor weather flying, electronic countermeasure equipment, and a redesigned engine. In addition, the Alphas will have a new antitank munitions disperser and weapons control systems to deliver the Maverick anti-armor missile, a high-speed antiradiation missile, and the Sidewinder air-to-air missile.

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The Alpha jet, built jointly by West Germany and France, is used primarily for ground attack and training missions and is largely restricted to daytime flying. The improvements will allow the aircraft to conduct maritime operations, interdiction, and antihelicopter and antitank warfare. The program also will

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improve the aircraft's versatility by increasing the number of sorties it can fly, extending its operating range, and enhancing its survivability and reliability through greater redundancy and a larger weapons load []

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**West Germany--
Netherlands**

Governments to Aid Semiconductor Project []

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The West German and Dutch Governments, which regard microelectronics as central to their high-tech promotion efforts, have decided to provide \$185 million in subsidies to the joint Siemens/Philips project to develop by 1989 the next generation of computer memory chips. Bonn's share will be \$125 million. []

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The project's prospects were unclear last summer when Toshiba came out with samples of a one-megabit chip and Siemens decided to purchase Toshiba's design. Siemens is completely committed to drawing abreast of Japan in semiconductor technology, however, and Siemens and Philips optimistically contend that they will close the microelectronics gap between West Germany and Japan if they can meet their target date. Siemens's interest in the project comes not only from a desire to expand its share of the semiconductor market but also from the hope that the chips can be used to improve the competitiveness of the company's telecommunications and factory and office automation products. Siemens currently is the only European producer of the 256K DRAM, the most advanced computer memory chip in full commercial production, and Philips is Europe's largest semiconductor producer. []

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Italy

Mafia "Maxi-Trial" To Begin []

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The Italian Government on 10 February will begin its long-awaited prosecution of more than 450 Mafia figures in one of the largest mass trials in the country's history. The so-called "maxi-trial," which will be held in a fortified gymnasium courtroom in Palermo, is the culmination of more than two years of painstaking work by Palermo's small pool of anti-Mafia judges, magistrates, and law enforcement officials. Many defendants were arrested in carefully orchestrated mass roundups over the last two years and face charges ranging from Mafia conspiracy and drug trafficking to responsibility for more than a hundred homicides, including anti-Mafia chief Gen. Dalla Chiesa in 1982. According to Palermo Judge Giovanni Falcone, the trial will take at least a year. []

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Foremost among the indicted Mafiosi are key members of the Salvo and Greco families. Recent revelations about their wealth and influence as power brokers in Sicily's Christian Democrat-dominated political system have affirmed the existence on the island of a "government within the government." Indeed, the prosecution's pretrial report documented several episodes of Mafia collusion among Communist as well as Christian Democratic politicians. The trial comes amid a growing belief among anti-Mafia prosecutors and investigators that Rome is backing away from its promise to support regional efforts against Mafia

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influence. The murders of several police and government officials in Sicily last summer, interpreted by authorities as pretrial intimidation, strained Palermo's already tense relations with Rome over inadequate allocation of resources to combat the Mafia. Several key officials have confided to the US Consul General in Palermo that they foresee a posttrial "pax Mafiosi" that will mark the end of the current anti-Mafia enforcement effort and a return to the status quo ante.

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Hungary-Austria**Vienna to Finance Dam**

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Austria has agreed to provide Hungary substantial financial and technological support for the controversial Nagymaros Dam, part of a joint Czechoslovak-Hungarian hydroelectric complex on the Danube. The Austrian Government will guarantee bank loans covering nearly 90 percent of the estimated \$440-million cost of the dam, and Austrian companies will perform 70 percent of the construction. To repay the loans, Hungary will deliver 1.2 billion kilowatt-hours of electricity annually to Austria—two-thirds of its share of the complex's output—over a 20-year period starting in 1996, when work is scheduled to be completed.

After dragging its feet since 1977, Budapest agreed to proceed last year in response to pressure from Moscow and Prague. Austrian participation will alleviate the concerns of some Hungarian officials about the project's cost and will free Budapest to channel resources to energy investments it considers more productive. But the meager return Hungary stands to derive from the project—less than 2 percent of its current electricity requirements—could revive criticism from domestic environmental groups, who have attempted to arouse public opposition through petition drives, pamphleteering, and public meetings.

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For Vienna, the project will help compensate for the financial and job losses resulting from environmentalist-inspired delays of the Hainburg hydroelectric plant and other Austrian power projects. Also, the assured delivery of Hungarian electricity will mitigate the impact of any future delays in Austrian power plant construction. The agreement will increase Austria's electricity imports from the East by about two-thirds, but imports should remain a small fraction of Austria's total electricity generation.

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Yugoslavia**Press Targets Corruption**

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Yugoslavia's loosely controlled press is giving the regime new heartburn with increasingly sharp and far-reaching attacks on official corruption and abuse of privilege. In the latest instance, *Borba*, the normally staid and semiofficial Belgrade daily, in December took to task a Cabinet minister for condoning and covering up widespread improprieties. The Cabinet a week later rejected some of the allegations as false and tendentious but said actions were being taken on other charges. Last September *Borba* and other papers set off a row when they charged that top officials from Vojvodina Province delayed an international train so that it could be joined by a special lavish coach carrying them and their families home from vacation.

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The press exposes reflect the growing openness of the country's media and cultural life since Tito's death, a trend that seems likely to continue despite periodic regime efforts at clampdowns. They also reflect growing public intolerance for high-level abuses at a time when citizens are being forced by the government to tighten their belts. The exposes so far have resulted in some disciplinary actions and calls for tougher laws, but they are unlikely to change the time-honored way in which Yugoslav officials do business. []

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Federal Budget Passes After Debate []

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The contorted process through which Yugoslavia's federal budget was approved recently illustrates the kind of infighting among special interest groups inherent in the post-Tito system. Rising prices and a continuing decline in real incomes last year depressed consumer demand and led to lower than planned federal tax revenues. Belgrade initially tried to close the budgetary gap this year by increasing contributions from the republics and provinces, first setting them at 47 percent of the 1986 budget—up from 34 percent in the previous two years. []

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The republics reacted sharply to the proposal, charging that greater contributions would sap regional development efforts. As a result, Belgrade cut back republic contributions by a quarter and the draft budget by 9 percent. But the resulting cuts in defense spending drew strong criticism from the military. The legislature finally passed the budget with instructions to the government to increase revenue in the coming year from existing federal sources, to increase subsidies to poorer regions, and to reduce republic contributions. []

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The Yugoslav federal budget is funded by a combination of direct federal taxes (primarily customs duties and value-added taxes) and contributions from the constituent republics and provinces. Federal expenditures, however, represent only about 12 percent of total public spending, and about two-thirds of federal receipts go to support national defense. []

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Bulgaria

Census Figures Reported []

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Preliminary census results released in mid-January show a continued slowdown in population growth despite regime efforts to encourage larger families. Bulgaria reported a population of 8.94 million, an increase of only 215,000 since the last census in 1975 and a step short of the coveted "nine millionth Bulgarian." The census revealed a decline in working-age population, an increase in the number of pensioners, and a dramatic growth in urban population. Sofia also reported an increase in the number of people with secondary education. As expected, the census did not acknowledge the country's large ethnic Turkish minority or provide any ethnic breakdown of the population. []

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Most disturbing for Sofia is the drop in working-age population. Despite improvements in educational levels, Sofia will continue to face shortages of skilled workers in industry and especially agriculture. The decline in the percentage of the population below the working age suggests that problems with labor shortages and conscription levels will persist. The increase in pensioners will be a burden for the state budget, which must also cope with strains on urban infrastructure caused by the migration of rural residents to the cities. The regime is now likely to introduce new incentives to increase birth rates, but we doubt that these are likely to reverse the trend toward slower population growth.

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France: Implications of the New Electoral Law

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The return to proportional representation in France is causing a great deal of uncertainty about the aftermath of the parliamentary election in March. Although it seems fairly clear that the conservative opposition will command a majority in the Chamber of Deputies, commentators are unsure about what the legislature's relationship will be with the traditionally powerful presidency. Understanding the mechanics of the new electoral law and some of its likely consequences is the first step toward making an assessment of the chances of instability or paralysis in the French Government after the election.

Operation of the Old Electoral System

The winner-take-all system had been instituted at the time of the founding of the Fifth Republic in 1958 in order to reduce the proliferation of parties that had incapacitated parliament under the Fourth Republic. Under the old system France was divided into nearly 500 districts, each of which elected only one representative. All parties were allowed to compete in the first round of an election; if no candidate received 51 percent or more of the votes, a runoff election was held. This system produced one clear winner for each district, but small parties had little chance of getting into parliament unless their voters were concentrated into local strongholds.

The electoral procedures determined the way the electorate looked at each of the two rounds and molded politicians' strategies. An electoral maxim in France was that on the first round people voted with their hearts and on the second round with their heads—and pocketbooks. Many people cast a protest vote during the first round for fringe parties that had no chance of winning and then shifted to a major party for the final and decisive ballot. Coalitions were made and deals struck between the rounds, and eventually two great alliances—the Socialists and Communists on the left and the Rally for the Republic (RPR) and Union for French Democracy (UDF) on the right—dominated the legislature. The winner-take-all system was an essential component of the Socialists' strategy for their victory in 1981

because it made it profitable for them to form an electoral alliance with the Communists and gave the Socialists 58 percent of the seats in the legislature even though they received only 38 percent of the vote on the first round.

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The Proportional System

The new electoral law, passed last June, fulfilled a longstanding Socialist commitment to make the electoral system more representative, but it also responded to pressing tactical needs. The popularity of President Francois Mitterrand and the Socialists had slipped considerably since the victory of 1981, and in the spring of 1985 public opinion polls indicated that only about a fifth of the electorate planned to vote for the Socialists in the March 1986 election. Mitterrand's goal in proposing the legislation, according to the US Embassy in Paris, was to reduce the magnitude of the expected victory by his rightist opponents. Mitterrand did not want to offer his enemies the same opportunity—to capture control of the legislature with less than 50 percent of the vote—that the Socialists had in 1981. If the right could be prevented from getting a majority, the Socialists would still be a force to reckon with, and Mitterrand would not have to face a hostile legislature that might try to weaken his authority or even to drive him from power.

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The proportional representation system proposed by Mitterrand makes changes in the electoral procedure that seem like technicalities but in fact have a considerable impact on how the political system functions. Under the new law each of France's 96 departments will be an electoral district. Every department will have at least two deputies, some of the more populous departments—such as Paris—will have 20 or more, and the average will be six. Parties will offer a list of candidates for all of the seats to be elected from the district. Voters will cast their ballots for these party lists rather than individuals. There will be only one round of voting, and the seats will be

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distributed proportionally to all parties receiving more than 5 percent of the vote. In an average district with six seats, for example, a party getting 30 percent of the vote would get seats for the top two men on its list and a party getting 15 percent would send the first man on its list to the Chamber. []

The effect of these procedures will vary according to the size of the party, but the overall result will be to make it harder for a single party to obtain a majority in the legislature.

- Larger parties, including the Socialists, the RPR, and the UDF, will be favored in the distribution of seats.
- Medium-sized parties, such as the Communists and the National Front, will get a small number of seats.
- Small parties, such as the Ecologists and the Left Radicals, will be eliminated or have only tiny delegations. []

The other major result is that voting for lists instead of individuals strengthens the power of the parties' national headquarters. Candidates' individual merits are not as important as their place on the list, and the headquarters in Paris determine the order in which candidates appear. This makes it more important for candidates to cultivate the party leadership rather than the electorate and reduces the public's ability to determine its representation directly. []

Reaction to the Law

During the parliamentary debate over the electoral law, there was an outpouring of criticism on both the left and right of the political spectrum. Many attacked the bill as a crass and partisan manipulation, according to Embassy and press reports. By making it so difficult to get a majority, critics said, Mitterrand was risking fragmentation and paralysis in the legislature. Comments from members of the RPR—the leading party in the polls—were particularly vehement, because they saw themselves being cheated of a victory. Others pointed out that the proportional system would allow the extreme right National Front into parliament for the first time. Michel Rocard, the maverick Socialist moderate, resigned from the cabinet in protest. In the end, however, Mitterrand used his control of an absolute majority in parliament to force the legislation through. []

Once the law was passed, the major parties scrambled to calculate the advantages and disadvantages for them under the new system. Within a week the RPR and UDF signed an electoral alliance, because the only way they could hope to win a majority was by cooperating. Nonetheless, the RPR agreed on joint tickets in only about half the departments and preferred to run alone in the most populous districts where it could pick up the most seats. Both the National Front and the Communists decided not to protest against arrangements that would enable them to have a foothold in parliament. []

During the autumn, bitter battles for favorable slots on the electoral lists were waged in all of the parties, and there were many casualties since party leadership usually rewarded loyalty at the expense of seniority or ability. Maurice Couve de Murville, a former foreign minister but no friend of party leader Jacques Chirac, was unceremoniously dropped from the RPR list.

There was even more turmoil in the National Front, where an old associate of party leader Jean-Marie Le Pen decided he did not like the way the party's lists were shaping up and revealed sordid details about how Le Pen had acquired the inheritance that was the foundation of his personal and political fortunes. []

Outlook and Implications

Polling data indicate that the RPR and UDF will probably gain control of the legislature without having to look for support from either the Socialists or the National Front. Based on a recent survey, one of the major French weekly newsmagazines is projecting the following results for the March election (289 seats will be necessary for a majority):

	Percent of Vote	Number of Seats
Communists	11	34
Socialists	30	197
UDF	19	145
RPR	29	163
National Front	5	11

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If the actual results are in line with these projections, the main impact of the new law for this election will be the strengthening of party headquarters' control. In future elections, where the vote is not so concentrated in favor of one party or coalition, the potential for fragmentation will remain, and, unless the law is changed, it could prevent the construction of a working majority in the legislature. The RPR is already on record as favoring a return to the winner-take-all system.

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If, on the other hand, the RPR and UDF do not get a working majority, the use of proportional representation could be the beginning of a period of instability and uncertainty in France. A fractious parliament, combined with the unprecedented situation of a president having to do business with a parliament dominated by his political opponents, is likely to mean that the French Government would be inward looking and hesitant until some solution is found.

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If the new law does produce a political crisis, debate over proportional representation could well be an important issue in France for the next two years. Concern about the situation will probably be considerable if the French conclude that a constitutional deadlock is not only delaying important domestic business but also keeping them from playing their traditionally active role in the world. Mitterrand could hold a referendum on proportional representation—or some other issue—to clarify the situation, or he could call for a new parliamentary election. Should a government crisis continue for more than a year, proportional representation would probably also become an issue in the presidential campaign scheduled for 1988.

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Switzerland: Next Fighter Procurement

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The Swiss Government has begun the first phase of a multiyear effort to acquire a new jet fighter for its Air Force. At an estimated overall cost of about \$5 billion, this procurement will be the most expensive weapons acquisition in Swiss history. Because aircraft from at least three countries are under consideration, the decision process will be intensely political and could be a source of continuing controversy within the Swiss Government into the 1990s. []

under all-weather [] conditions []

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Need for a New Fighter

The Swiss Air Force (SAF) currently deploys approximately 100 Northrop F-5Es and 30 French Mirage IIIs in a fighter/interceptor role, another 18 Mirage III-R reconnaissance aircraft, and about 150 British Hawker-Hunter ground attack aircraft. All of these aircraft are obsolescent for use in the European theater, but budget constraints have made their retention necessary. []

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Aircraft Under Consideration

[] this widely exported dual-role fighter is the choice of the SAF and thus a strong candidate. The F-16 is technologically mature, with proven intercept and ground attack variants. Even though the F-16 will be a relatively old-generation aircraft in the 1990s, its previously wide acquisition among US allies may enhance its chances for selection by the Swiss. By the 1990s the Swiss probably could buy older F-16s from countries such as the Netherlands that might be replacing them with newer aircraft. []

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[] With the Leopard II now selected as the Swiss Army's next main battle tank, the government is at last ready to address the problem of a modern interceptor for the SAF. []

Specifications for the Next Fighter

The SAF has planned to convert its F-5Es to a ground attack role as the acquisition of the new-generation interceptor commenced, but this adaptation may not prove cost effective. Northrop has assured the SAF that by 1990 it will be able to strengthen the F-5 wings sufficiently to carry four 800-kilogram bombs on a mission radius of 200 kilometers, but according to the [] the SAF remains skeptical. The SAF has therefore issued specifications for an aircraft capable of performing both intercept/air superiority and ground-attack missions. As an interceptor, the new fighter must be configured for day and night visual identification of unknown aircraft. It also must possess shootup and shootdown capabilities and be able to defeat hostile aircraft

Northrop F-20 Tigershark. Northrop has built strong relations with the Swiss parliament and the Federal Armament Technology and Procurement Group (GRD) through its performance on the F-5 program: its timely deliveries, 100-percent offset,² and contracts to fabricate aircraft parts in Switzerland. []

[] believe the SAF's requirements have been overstated and that a cheaper F-20 would be an affordable compromise.

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² Offsets are agreements requiring a seller to purchase from a buyer "offsetting" goods and/or services equivalent to a specific amount or percentage of a particular procurement cost. []

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The new Northrop fighter is only slightly larger than the F-5 [redacted]

The F-20 faces major hurdles, however, since Northrop has yet to sell a single F-20 and the aircraft does not meet the Swiss preference for a technologically mature system. [redacted]

McDonnell Douglas F/A-18 Hornet. Newer than the F-16, the F/A-18 is already flying for Canada and Australia as well as the US Navy. It might be seen as a compromise between the proven but older F-16 and the unproven technology of two of the non-US candidates—the French Rafale and Swedish Gripen, both of which are still in development. [redacted]

[redacted] the Swiss are seriously considering the F/A-18 [redacted]

Recent price reductions for the F/A-18 will help to counter Swiss perceptions that it is a too expensive, top-of-the-line option. [redacted]

Saab-Scania JAS-39 Gripen. This aircraft will be Sweden's next-generation fighter and is being developed as a multirole interceptor/attack/reconnaissance system. Its consideration strengthens Swiss ties to a fellow neutral country and may pacify Switzerland's vocal socialists. The first Gripen prototype is not scheduled to fly until 1987, and Saab must overcome the SAF's concern about unproven technology. If, however, the procurement timetable slips from 1990 to 1992 (1991 is an election year not favorable for large acquisition items in the budget), the Gripen may represent a more viable advanced-technology option with several years of operating experience to its credit. One final disadvantage Saab must address is the Gripen's projected high cost, resulting in part from the expected short production run for the Swedish Air Force. [redacted]

Dassault Mirage 2000. Another modern multirole fighter, the Mirage 2000 was developed as a long-range interceptor/attack/reconnaissance aircraft. It entered service with the French Air Force in 1982 and has been sold to Egypt, India, Peru, and Greece. In

the view of the US defense attache, it is regarded within the GRD as expensive and—like the heavier F-15—better suited for longer range offensive air missions than for Swiss defensive-oriented requirements. [redacted]

Dassault-Breguet Rafale. This next-generation fighter was France's candidate for the multinational European Fighter Aircraft (EFA) project. When Britain, West Germany, Italy, and Spain opted for a larger, heavier aircraft optimized as an interceptor, France chose to continue development of the Rafale as a lighter, cheaper multirole fighter with a primary ground attack mission. A demonstrator is scheduled to begin flight-testing in June 1986 and production aircraft could be available in the mid-1990s. Like the Gripen, the Rafale represents untested technology and may be competitive only if Swiss procurement slips to 1992. [redacted]

New Key Player in Swiss Acquisition Process

Dr. Felix Max Wittlin, who became chief of GRD in July 1985, will exercise a major role in evaluating the candidates for the SAF's next fighter. As head of GRD he is a member of the Commission for National Military Defense, chaired by the Minister of Defense and including the Chief of General Staff, the Chief of Training, and the five lieutenant generals who command the Swiss Air Force and the four Army corps. Since the military members of the commission rotate relatively often, the civilian armament chief tends to be the member most experienced in procurement matters. Wittlin's background should enable him to deal effectively with both the Swiss military and the Swiss defense industrial sector. Wittlin has served as an artillery officer, rising to the rank of brigadier and forging close ties to the military establishment. He also has sound credentials within the Swiss industrial sector, having attained the post of Deputy General Director in Brown, Boveri, and CIE Switzerland Group. Wittlin speaks fluent English and is well acquainted with the United States. He attended the Advanced Artillery Course at Fort Sill in 1966-67 and the Executive Management Course at Stanford in 1978. Wittlin's deputy at the GRD is Rene Huber, who should be well acquainted with

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Picking a Winner

The Swiss intend to conduct their selection process in three phases:

Definition Phase. *This involves a general survey of possible candidates through contractor presentations. Presentation data will be used to generate a questionnaire. Northrop began the definition phase with a full presentation on 18 November. Dassault and Saab are expected to make presentations in January, and General Dynamics and McDonnell Douglas in February.*

Preevaluation Phase. *In mid-1986 selected contractors will receive a detailed questionnaire. Swiss teams will then visit these companies and make preliminary evaluation flights. At the end of this phase, two finalists will be submitted to Swiss authorities for approval.*

Final Evaluation Phase. *There will be further evaluation flights of the finalists in Switzerland, followed by negotiation of terms and preparation of a procurement message to the Swiss parliament. Regardless of which aircraft are the finalists, the Swiss will demand either production within Switzerland or a very large offset agreement.*

official suggest that the GRD may hope the planned purchase of French Super Puma helicopters and a possible contract for French Alpha Jet trainers next year will relieve some of the pressure to buy a French interceptor. Remarks by the British and Israeli air attaches in Bern, moreover, indicate that those countries also will press to have the British Aerospace Tornado and Israel's developmental Lavi included in the competition. The Tornado's omission from the original list of candidates may in part reflect Swiss displeasure at British selection of the Brazilian Tucano trainer in 1985 over the Swiss Pilatus.

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American defense contractors through his service as the GRD representative at the Swiss Embassy in Washington. []

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Political Pressures

Major Swiss defense procurement decisions have grown increasingly bitter and politicized. The first Swiss arms chief resigned after French intervention in 1972 aborted a decision to acquire the LTV A-7 Corsair ground support aircraft, following five years of evaluation (the older British Hawker-Hunter was eventually selected). In 1983, both the GRD and the Swiss military solidly favored Sikorsky's Blackhawk helicopter over the French Super Puma, but again French pressure forced a reversal. We expect similar pressures as the Swiss fighter selection process progresses. Indeed, comments by a senior GRD

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Economic News in Brief

Western Europe

Bonn extending maternity leave with guaranteed reemployment to 10 months this year and to 12 months in 1988 . . . includes monthly payments of up to \$240 and paid health, unemployment, pension contributions . . . prompted by concern over declining population.

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Some West German firms closing production facilities in Asia . . . resuming domestic production as Asian low-wage advantage decreases . . . West German wage costs have increased less, and labor share of product cost declining in consumer electronics, some textiles . . . LDC debt crisis also seen increasing risks of production abroad.

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Several Belgian firms hope to send officials to US for SDI discussions, probably in April . . . interested in joint research with US firms . . . Brussels not participating officially in SDI projects but facilitating private involvement.

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UK's Westland helicopter stockholders have blocked Sikorsky bailout . . . plan needed 75-percent approval, but got only 65 percent . . . company directors still favor US option . . . drawn out struggle has embarrassed Prime Minister Thatcher.

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Eastern Europe

Poland met with bank creditors on 28 January, probably seeking relief from rescheduled debt payments for 1986, 1987 . . . bankers may be willing to amend accords . . . Warsaw already has asked government creditors to defer debts.

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